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ABSTRACT

The current system of school finance in Texas allows for gross inequities among districts. Statistics indicate that although Texas ranks slightly higher than the nation's average in state wealth, its support of schools, as measured by the percentage of personal income devoted to education, ranks about 35th. These figures suggest that the state could be spending more on education. Two suggestions for correcting the state system, consolidation of districts and elimination of the "economic index" in current use, are inadequate. The major problems that must be addressed are how enrichment monies for operating expenses are provided, how capital outlay money must be raised, and how foundation program current expense allotments are determined. The reform of these problems must take into consideration district wealth, district family income, local school taxes, local municipal taxes, different common costs of education, concentrations of students with special needs, and different transportation needs. It must be kept in mind, however, that finance reform alone will not help the station of the poor and those from minority backgrounds unless the factors of cultural difference, language difference, economic difference, and Anglo political domination are also faced. (Author/IRT)

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HOW TEXAS SHOULD RESPOND

TO ITS

CRISIS IN SCHOOL FINANCE

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Many facts have been laid on the table recently regarding the immediate crisis in school finance which many Texas districts face. There is a long term crisis in Texas school finance, however, which has only slowly come to be recognized as a "crisis." I am referring to the woefully inadequate funding of the education programs in districts of low wealth and the confiscatory local property taxation in many of these districts which is necessary to maintain even minimal level programs. I am referring to the gross inequities in school finance among districts which Rodriguez v. San Antonio aimed at correcting. This is the "crisis" which this paper addresses.

Where Can the Money Come From?

A preliminary consideration, however, concerns the availability of new monies to help alleviate both the immediate and long-term crises. Where can the money come from?

Let us first recognize that the Federal Government has not seen fit to expand its role in aiding elementary and secondary education in the past several years. Until the Nixon Administration is replaced by people committed to moving the country toward equality of educational opportunity, we can expect no relief from the Federal Government. Therefore, if Texans are going to attempt to eliminate their crises in school finance, they must look to their State and local resources to do so.

In this connection, let us look at a few salient statistics. In 1970-71, Texas was 41st nationally in current expenditures per pupil for elementary and secondary schools.1/ According to estimates from the National Center for Educational Statistics, this ranking is not likely to be very different when 1972 and 1973 data are published.

When looking at combined local and state revenue receipts for public schools (in 1971-72) as a percent of personal income (1971), the most recent figures available, we see that Texas is at 4.8% vs. the U. S. average of 5.2%, ranking Texas around 35th nationally.2/ But on most measures of State wealth, Texas ranks slightly higher nationally.3/

These figures suggest that the State could be spending more on public education.

Consolidation as a Possible Solution to Interdistrict Inequities

One way to approach school finance equity that has been proposed in the past is by consolidation of school districts. As you may or may not know, Texas has over 1,100 school districts. (This compares with 24, for instance, in Maryland.) If many of these districts were merged into larger entities, the wealth differentials among districts would be diminished, resulting in more adequate funding for the schools in what are now the poorest districts (or so the theory goes). Consolidation was a major recommendation proposed by the Governor's Committee on Public School Education in 1968.

Now it is a fact that smaller districts get favored treatment over larger districts under the Minimum Foundation Program of the present Texas school finance system. Over one half of the State's districts have 500 pupils or less. As a group they get 50% more State aid per pupil than the seven largest districts (all over 40,000 pupils), despite having over three times the wealth per pupil of the seven largest districts.4/

But is consolidation worth it? It could mean the loss of hard won Chicano control in the few districts where Chicanos have mobilized political power commensurate with their numbers of enrolled students. Certainly it would mean widespread opposition to reform from tax assessors, local school board members and school administrators from districts to be merged, as well as from parent-voters in those districts who would feel upset by the possible loss of influence inherent in consolidation. Wholesale consolidation attempts might be enough to defeat any attempted reform. Several informed sources have suggested that the wholesale consolidation proposal was one of the principal factors which waylaid the major school finance reform proposals of the Governor's Committee in 1968. Maybe there's a better way to approach equity.

Replacing the "Economic Index" as a Possible Solution

A more recently suggested means of approaching school finance equity is to replace the "Economic Index" by a fair method of determining the Local Fund Assignment of the State's Minimum Foundation Program. As you know, the Local Fund Assignment (LFA) is

the amount a local district pays as its share of the Minimum Foundation Program; it averages about 20%.

Initially when the Minimum Foundation Program was adopted in Texas in 1949, it covered 80% of the operating costs of the State's school districts. As of 1966-67, according to the 1968 Governor's Committee on Public School Education, the Foundation Program paid for only 2/3 of total public school operating expenses.5/

Now, 20% (the average Local Fund Assignment, as determined by the "Economic Index") of 2/3 (the portion of the Texas overall school budget supported by the Minimum Foundation Program) only amounts to 13%. That is the maximum portion of the State and local school revenues which is affected by the Economic Index. Analysis of selected Texas districts shows that wealthy districts and poorer districts tax both high and low to raise revenues for their Local Fund Assignments, suggesting that the calculation of LFA is rather equitable (although plagued by faulty methodology which causes some districts to tax themselves more heavily than others to raise their LFA's).6/ Furthermore, a local district has no control over how the revenues for the LFA are spent, because they must be spent in strict accordance with the basic scheme of the overall Foundation Program.

Therefore, it is important that the replacement of the Economic Index be regarded as a secondary issue compared to three more important facets of Texas school finance.

The Major Problems of the Texas System

(1) How enrichment monies for operating expenses are provided.

(2) How Capital Outlay monies must be raised.

(3) How Foundation Program current expense allotments are determined.

(1) Enrichment

The 1968 Governor's Committee reported that twice as many local tax dollars went for enrichment of current operating expenditures

as for the local portion (LFA) of the Minimum Foundation Program.7/ By 1970-71, the Texas Research League's data showed that the ratio had risen to 2-1/2:1 ($197/pupil for enrichment vs. $77/pupil for LFA).8/

This is hardly surprising considering that there is no limit on how much enrichment monies a district can raise, and that, under the pressure of a fiscal crisis, raising enrichment levies is easier to do than pushing for increases in Foundation Program funding at the State level, at least for those districts which can afford to increase their taxes.

District property wealth is the sole determinant of the amount of enrichment monies that similar district tax rates can generate. Because of this, local enrichment revenues for operating expenses (i.e., excluding local money raised for debt service) ranged from less than $100/student to more than $7,000/student across the State in 1970-71, although only 11% of the districts (2% of the students) had enrichment levels above $500/student.9/

The 1973 Report of the Joint Senate Interim Committee to Study Public School Finance (Mauzy Report) called local enrichment the "greatest matter of inequity in the current Foundation School Program."

It is to be noted that Florida, Kansas, Montana and Michigan have all recently passed legislation which works at providing more equal yields for the same enrichment tax rates.

(2) Capital Outlay

Roughly 1/4 of local revenues go for capital outlay expenditures and debt service. This is more than is allotted for the local share (LFA) of the Minimum Foundation Program.10/

As with enrichment monies for operating expenses, district property wealth is the sole determinant of the amount of capital outlay and debt service funds that similar district tax rates can generate.

And, of course, district property wealth is generally unrelated to differences in construction and rennovation needs and costs between districts. Construction cost per square foot can be the same for city and suburb because they are drawing from the same labor pool and supplies market. Nevertheless, land costs

differ fantastically. A recent survey of the 25 largest metropolitan areas in the U. S. points up how central cities paid $68,000 per acre for school sites, while their surrounding suburbs paid only $3,500 per acre. Rural construction and land costs, of course, are considerably less than city and suburban costs.

Presently 35 States provide some form of assistance for school housing, with Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, New Hampshire, North Dakota and Vermont allocating from 11% to 47% of their state school budgets for this purpose. Maryland has 100% state supported school construction, although sites have to be acquired with local funds.11/

(3) Foundation Program Allotments

Of total State and local operating costs, 62% are supported by the Minimum Foundation Program (MFP).12/ As has already been noted, roughly 4/5 of the MFP monies are put up by the State compared to 1/5, on the average, by local districts. Essentially the MFP provides five forms of assistance: minimum salary allowances, operating cost allowances, transportation cost allowances, vocational education assistance and special education assistance.

According to the Texas Research League's recent research, the Foundation Program allotment in 1970-71 exceeded $1,500/pupil in one district with 38 pupils and was below $300/pupil in another with 51 pupils. The bulk of Texas districts (84% of the districts, 99% of the students) get from $300/pupil to $600/pupil. But this is a 100% gap between top and bottom.13/

The Mauzy Report has castigated the workings of the present Foundation Program on several points. (a) Rich districts can pay higher salaries to attract teachers with advanced degrees and more experience, thus garner more Foundation Program entitlement. So rich districts get more State aid and poor districts get what's left in terms of teacher quality and State aid. (b) A district must fill its authorized personnel units to get a Foundation Program allotment. But low salary schedules, use of larger pupil/teacher ratios, and unattractiveness of districts' locations and facilities contribute to underutilization of allowed units within certain districts. The Report said this frequently exists "in districts with comparatively low per pupil property wealth." (c) The Foundation Program higher

allotments for teachers with more advanced degrees and more experience constitutes a "guarantee" (to the Texas State Teachers Association) that the higher priced teachers won't be dumped in favor of cheaper teachers (i.e., ones with less degree preparation and less experience) by districts which question the cost effectiveness in the classroom of the higher priced teachers, and which might wish to experiment with alternative uses of the extra Foundation Program funds which now are allotted for the higher priced teachers over lower priced ones. (d) The Foundation Program pays only for one set staffing pattern of teachers, principals, other administrators, counselors, nurses, librarians, teachers' aides, etc. Only if a district has enrichment monies can it add additional staff in these categories or hire additional staff outside these categories.

To reiterate, the method of calculating the Local Fund Assignment (LFA) is the most equalizing part of the present system of Texas school finance. Reform efforts, like Rep. Dan Kubiak's, which focus on changing the method of calculating LFA, are diversionary from the major problems in the system. The major problems, once more, are:

(1) how enrichment monies for operating expenses are provided;

(2) how capital outlay monies must be raised; and

(3) how Foundation Program current expense allotments are determined.

How Should Reform Be Approached?

Reform can be attempted by remedying one problem at a time, or it can be done in wholesale fashion. Either way, an overall concept of what constitutes an equitable system for all school districts in a State is mandatory. Otherwise the remedies proposed to solve one fiscal problem, if unevaluated for their contribution to overall system equity, may cause severe repercussions in other fiscal dimensions once they are implemented. Following are discussed various factors which many states across the United States are now beginning to recognize as "must" considerations in the development of fair and equitable state school financing systems.

1. District Wealth

The lower the property wealth per pupil, the more the state school finance system should compensate. Equal local tax rates should provide equal yields of state and local revenues, all other factors being equal.

2. District Family Income

Property wealth alone is not an adequate measure of district wealth. The lower the family income per pupil, the more the state school finance system should compensate, since property taxes have to be paid out of income. Kansas has recently instituted a system incorporating this feature.

3. Local School Taxes

As greater tax effort is put forth by school districts, proportionate increases of state and local revenues should perhaps be available to the districts, all other factors being equal. This assumes the desirability of continuing to allow differential local tax efforts.

On the other hand, there are certain problems with allowing differential efforts. First of all, wealthier communities probably can more easily afford to increase their tax effort than poorer communities--they have more income. Second, communities with voters who are more educated and have more income, and which have more professional workers probably more easily vote for higher tax efforts than those which don't have these kind of voters, at least according to a study done by a Massachusetts scholar looking at the Massachusetts history regarding tax effort. After all, such people know the value of education. However, the evidence in Texas shows that, on the whole, the poorest districts have taxed themselves much more than richer districts.

4. Local Municipal (Non-School) Taxes

Cities and some other governmental units often have very high municipal (non-school) tax burdens because of high needs for adequate police protection, garbage disposal, health and hospital services, fire protection, sewers, social services for indigents, etc. The higher the non-school tax burden, the less available are additional tax dollars for schools. Thus, the greater the non-school tax effort, the less should be expected in school tax efforts, or, to put it another way,

low school tax effort in a district with a high non-school tax burden should bring a nearly equivalent yield as a high school tax effort in a district with low non-school taxes, again all other factors being equal.

5. Different Common Costs of Education

Salaries, janitorial labor, kitchen help, other labor costs, land for school buildings, etc., all are higher in urban areas than rural areas.

A recent study by The Urban Institute in Washington, D. C. shows that there is little difference between the non-instructional expenditures of one district or another, whether urban, suburban or rural--except for the very high transportation costs of rural districts, which in turn is counterbalanced by the very high building operation and maintenance costs of central cities. The main point on cost differentials has to center around teachers' salaries, which amount to around 80% of operating budgets of school systems. There are two major differences in costs differentials in teachers salaries between different types of districts. First of all, city and suburban districts have higher salaries than rural districts for teachers with the same experience and education. Secondly, cities have more teachers with greater seniority and more preparation (degrees) than suburban (and rural) districts. Thus, city districts end up having higher salary costs than their suburban counterpart districts, and certainly, considerably higher costs than their rural counterparts. This is a reality whether or not we value more experience and more formal preparation in teachers.14/

Equal dollars per pupil, therefore, buys the least educational program in urban areas and the most in rural areas, with suburban areas in between.

General cost-of-living differentials between areas should be reflected in distribution of any state education funds. Florida has recently adopted this principle. But central cities' higher salary costs due to higher concentrations of more experienced, more prepared and thus securely tenured teachers also must be recognized.

6. Concentrations of Students with Special Needs

It is generally accepted that it costs more to educate children with physical handicaps, mental retardation, learning disabilities and emotional disturbance than the average student.

It is also somewhat accepted that it costs more to educate "incompatible" students, i.e., students from non-mainstream, non-Anglo, non-middle class backgrounds. More funds per student should be made available for such special education needs. And, as the percentage of such students varies district by district, especially in the category of "incompatible" students, differing overall needs should be recognized in any fair state funding scheme. Utah and Florida have both revised their systems to provide for higher concentrations of student needs in some districts over others.

7. Different Transportation Needs

The rural factor. Excess transportation costs and higher administrative costs should be compensated (remembering, however, that urban and suburban districts also have real transportation needs which should likewise be compensated if their needs are in "excess" of a normal district's transportation needs).

Scorecard on the System

Now turn to the next page to see how each of the major facets of the Texas system of school finance tend to compensate/equalize for the various factors just discussed.

A Scorecard on the System of School Finance in Texas

Does the System Tend to Compensate/Equalize for	Enrichment Funds for Operation	Providing for Capital Outlay and Debt Service	Foundation Program Allotment	Determination of LFA
1. Lower district property wealth	NO	NO	NO	Somewhat
2. Lower district family income	NO	NO	NO	Somewhat
3. Higher district school taxes	NO	NO	NO	NO
4. Higher local municipal (non-school) taxes (which reduce the available tax dollars for school needs)	NO	NO	NO	NO
5. Higher common costs of education due to higher costs of living (base salaries, other labor costs, site acquisition, etc.)	NO	NO	Indirectly for salaries; otherwise, NO	NO
6. Higher concentrations of students with special needs in a district (greater numbers of handicapped, deaf, blind, "incompatible" students*, etc.)	NO	NO	Somewhat now; NO by 1976-77**	NO
7. Higher district transportation needs	NO	NO	YES	NO

* "Incompatible" students are those from non-mainstream, non-Anglo, non-middle class backgrounds, after the Dr. Jose Cardenas and Ms. Bambi Cardenas definition.

** During 1970-71, only 6% of MFP allocations went for Special Education needs. This figure is increasing by virtue of changes mandated by the State Legislature in 1970. However, now Special Education funds are based on identified student needs, whereas by 1976-77 Special Education funds will be allocated on the assumption that every district has the same percentage of special education students, therefore, not recognizing higher needs among some districts. Further, higher numbers of "incompatible" students get no recognition.

Should Texas not consider adopting a system of school finance which would compensate/equalize for each of the factors in the foregoing discussion? Is it not time for Texas to institute an equitable system of school finance?

Look Not Only at Finance, Though, When Attempting to Reform the System

It must be remembered that both the short-term and long-term financial crises of the Texas school finance system are very much part of the larger context of the Texas school situation.

A prime part of that context is that the system has over a million pupils who are Mexican-American or Black, i.e., almost 40% of the total Texas school population. There are significant cultural differences between these minority groups and the dominant Anglo population. There is a considerable language difference between those affluent primarily in Spanish and the dominant Anglos. There are major differences between the impoverished backgrounds of many of Texas' minority students and the generally more affluent Anglos. (A child coming from a bare shack living with a family of ten, surviving on a day-to-day basis, in no way brings the same perceptions of the world into the classroom as the middle-class, Anglo child going to school with three healthy and hearty meals and a good night's sleep, one child to a bed, one bed to a room.)

Another part of the context is the total Anglo domination of the Texas school system from the Legislature to the Governor's Office to the State Board of Education, the Texas Education Agency, the TSTA and other education establishment groups, local school boards, local school systems, administrators and teachers.

These facets of the Texas school situation have been responsible for the following results. According to recent reports by the U. S. Commission on Civil Rights, one half of the Mexican-American and one-third of the Black students of Texas drop out before completing the twelfth grade (while only 15% of Anglos do). Nearly 45% of the Mexican-American and over 50% of the Black students in the twelfth grade read at least two years below grade level (only 15% of the Anglos do).

These results will be repeated no matter how the Texas system of school finance is reshaped. Even if it is completely reshaped in the manner suggested earlier, the finance reforms will have

very limited influence on the education of Texas students from poor and minority backgrounds, unless the factors of cultural difference, language difference, economic difference and Anglo political domination are faced at the same time that the financial crisis is faced.

FOOTNOTES

1/ Derived from National Center for Educational Statistics, EXPENDITURES AND REVENUES FOR PUBLIC ELEMENTARY AND SECONDARY EDUCATION, 1970-71, GPO, Washington, D. C., 1973.

2/ NEA, Rankings of the States, 1973, Research Report 1973-R-1, Washington, D. C., 1973, p. 49, Table G-4.

3/ Ibid., pp. 41-45.

4/ Governor's Committee on Public School Education, REPORT OF THE GOVERNOR'S COMMITTEE: THE CHALLENGE AND THE CHANCE, Austin, Aug. 1968, (Hereafter referred to as Governor's Committee REPORT), Volume V, RESEARCH REPORT: PUBLIC EDUCATION IN TEXAS--FINANCING THE SYSTEM, 1969, (Hereafter referred to as Volume V), p. 55, Table XIX.

5/ Ibid., p. 25.

6/ Robert O. Bothwell, "The Inequities of the Texas School Finance System (Especially Considering Harris County)", 1973, unpublished paper distributed by HIU-Minority Tax Reform Project, Houston.

7/ Governor's Committee Report, Volume V, Table XXII, p. 67.

8/ Texas Research League, TEXAS PUBLIC SCHOOL FINANCE: A MAJORITY OF EXCEPTIONS, 2nd Interim Report, Austin, Nov. 1972, (Hereafter referred to as "Texas Research League, 2nd Interim Report"). Table 2, p. 13.

9/ Ibid, pp. 21-22.

10/ Ibid., Table 2, p. 13. ($71/student for debt service requirements plus $16/student for capital outlay from current revenue = $87/student vs. $77/student for LFA, 1970-71).

11/ Texans for Educational Excellence, TEE Newsletter, Volume 1, No. 4, San Antonio, August 1973, p. 3.

12/ Derived from Texas Research League, 2nd Interim Report, p. 13, Table 2. "Net Foundation Funds" ($425.89) as a percentage of "State-Local Current Operating Expense"($617.29) and "State, County and Regional Service Center Expenditures" ($69.86), or $425.89 as a percentage of $687.15.

Footnotes (cont'd)

13/ Ibid., p. 15.

14/ Betsy Levin, Thomas Muller, Cardovan Sandoval, THE HIGH COST OF EDUCATION IN CITIES, The Urban Institute, Washington, D. C., 1973.